



Audit report

MUSINA LOCAL MUNICIPALITY

30 June 2016



**AUDITOR - GENERAL
SOUTH AFRICA**

Report of the auditor-general to the Limpopo provincial legislature and the council on Musina Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Musina Local Municipality set out on pages X to XX, which comprise statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Musina Local Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material impairments

8. As disclosed in notes 2 and 3 to the financial statements, provision for doubtful debts to the amounts of R3 478 463 and R19 619 907 were made to receivables from exchange transactions and receivables from non-exchange transactions respectively, as a result of irrecoverable debt.

Restatement of corresponding figures

9. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of an error discovered during 2016 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

Unauthorised expenditure

10. As disclosed in note 40.1 to the financial statements, unauthorised expenditure amounting to R5 757 290 has been incurred by the municipality, due to expenditure incurred in excess of the limits of the amounts provided for in the votes of the approved budget.

Fruitless and wasteful expenditure

11. As disclosed in note 40.2 to the financial statements, fruitless and wasteful expenditure amounting to R10 766 174 has been incurred due to interest on late payment on accounts.

Irregular expenditure

12. As disclosed in note 40.3 to the financial statements, irregular expenditure amounting to R21 104 415 has been incurred by the municipality, due to contravention of the supply chain management policy.

Going concern

13. Note 55 to the financial statements indicates that municipality incurred a net deficit of R70 156 556 (2015: R36 613 580) during the year ended 30 June 2016 and, as of that date, the municipality's current liabilities exceeded its current assets by R138 695 223 (2015: R79 496 796).

Additional matter

14. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

15. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon

Report on other legal and regulatory requirements

16. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

17. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2016:
- Key performance area (KPA) 2: Municipal transformation and organisational development - Refuse & waste management services on pages 16 to 17
 - KPA 5: Basic service delivery - Water and waste water management on pages 29 to 30
 - KPA 5: Basic service delivery - Roads and storm water services on pages 30 to 31
 - KPA 5: Basic service delivery - Electrical services on pages 31 to 32
18. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National

Treasury's Framework for managing programme performance information (FMPPi).

19. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. The material findings in respect of the selected development priorities are as follows:

KPA 2: Municipal transformation and organisational development - Refuse and waste management services

Usefulness of reported performance information

Consistency of development priority

21. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of development priorities, indicators and targets between planning and reporting documents. An important reported development priority was not consistent with those in the approved integrated development plan.

Change to development priority not approved

22. Section 25(2) of the MSA determines that an integrated development plan adopted by a municipal council may be amended in accordance with the process as prescribed per section 34 of the MSA, and that such a plan remains in force until an integrated development plan is adopted by the next elected council. A material change was made to an important development priority in the annual performance report, without following the process as prescribed in section 34 of the MFMA and without adoption by the municipal council.

Reliability of reported performance information

23. I did not identify any material findings on the reliability of the reported performance information for KPA 2: municipal transformation and organisational development – refuse & waste management services.

KPA 5: Basic service delivery - Water and waste water management

Usefulness of reported performance information

Consistency of development priority

24. Section 41(c) of the MSA requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of development priorities, indicators and targets between planning and reporting documents. An important reported development priority was not consistent with those in the approved integrated development plan.

Change to development priority not approved

25. Section 25(2) of the MSA determines that an integrated development plan adopted by a municipal council may be amended in accordance with the process as prescribed per section 34 of the MSA, and that such a plan remains in force until an integrated development plan is adopted by the next elected council. A material change was made to an important development priority in the annual performance report, without following the process as prescribed in section 34 of the MFMA and without adoption by the municipal council.

Measurability of indicators

26. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. Important indicators were not verifiable.

Reliability of reported performance information

27. I did not identify any material findings on the reliability of the reported performance information for KPA 5: basic service delivery – water and waste management.

Key performance area 5: Basic service delivery - Roads and storm water services

Usefulness of reported performance information

Consistency of development priority

28. Section 41(c) of the MSA requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of development priorities, indicators and targets between planning and reporting documents. An important reported development priority was not consistent with those in the approved integrated development plan.

Change to development priority not approved

29. Section 25(2) of the MSA determines that an integrated development plan adopted by a municipal council may be amended in accordance with the process as prescribed per section 34 of the MSA, and that such a plan remains in force until an integrated development plan is adopted by the next elected council. A material change was made to an important development priority in the annual performance report, without following the process as prescribed in section 34 of the MFMA and without adoption by the municipal council.

Measurability of indicators

30. The FMPPI requires that performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. Important indicators were not well defined.

31. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. Important indicators were not verifiable.

Reliability of reported performance information

32. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned development priorities, indicators and targets. The reported performance information was not reliable when compared to the evidence provided.

KPA 5: Basic service delivery - Electrical services

Usefulness of reported performance information

Measurability of indicators

33. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. Important indicators were not verifiable.

Reliability of reported performance information

34. I did not identify any material findings on the reliability of the reported performance information for KPA 5: basic service delivery - electrical services.

Additional matters

35. I draw attention to the following matters:

Achievement of planned targets

36. Refer to the annual performance report on pages x to x; x to x] for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 21, 22, 24 to 26, 28 to 32 and 33 of this report.

Adjustment of material misstatements

37. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 2: municipal transformation and organisational development - refuse & waste management services, KPA 5: basic service delivery - water and waste water management, KPA 5: basic service delivery - roads & storm water services and KPA 5: basic service delivery - electrical services. As management subsequently corrected only some of the misstatements, I identified material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

38. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements

39. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

40. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
41. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Consequence management

42. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) and (b) of the MFMA.

Procurement and contract management

43. I could not obtain sufficient appropriate audit evidence that contracts were only awarded to providers whose tax matters had been declared by the South African Revenue Service to be in order, as required by *Supply Chain Management Regulation (SCM) regulation 43*.
44. Awards were made to providers who were in the service of other state institutions, in contravention of section 112(j) of the MFMA and *SCM regulation 44*. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by *SCM regulation 38(1)*.
45. Construction contracts were awarded to contractors that did not qualify for the contract, in contravention of *Construction Industry Development Board (CIDB) regulations 17 and 25(7A)*.
46. Contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by *SCM regulation 13(c)*.
47. Bid adjudication committees were not always composed in accordance with *SCM regulation*

29(2).

Internal control

48. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

49. Leadership's review did not detect or prevent the risks of material misstatements to the financial statements and performance information which were only identified during the audit process. The slow response by leadership to resolve recurring findings and its inability to follow a pro-active approach have resulted in material misstatements in financial and performance reporting.
50. Those charged with governance have not yet provided adequate evidence to confirm unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality in the prior years have been investigated.
51. The municipality's efforts to address the cash flow and liquidity challenges did not yield the desired results to minimise the municipality's exposure to cash flow risk and liquidity problems, which leads to going concern and financial viability difficulties.

Financial and performance management

52. Senior management did not adequately oversee the operations of the municipality, as the financial statements and annual performance report contained material misstatements not detected by the municipality's own system of internal control.
53. The municipality's management of records was inadequate in keeping performance information that supported the reported information. This included information that related to the collection, collation, verification, storing and reporting of actual performance information.
54. The implementation of the supply chain management processes and procedures were inadequate resulting in irregular expenditure.

Auditor-General,

Polokwane

30 November 2016



AUDITOR-GENERAL
SOUTH AFRICA